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UNFPA — Recommendations of the United Nations Board of Auditors

United Nations Population Fund

Follow-up to the report of the United Nations Board of Auditors for 2008-2009: Status of implementation of the recommendations

Report of the Executive Director

Summary

Pursuant to decision 97/2 of the Executive Board, the Executive Director is pleased to submit a report on the implementation by UNFPA of the recommendations of the United Nations Board of Auditors, for the biennium that ended 31 December 2009 (A/65/5/Add.7).

This report describes the actions taken and planned by UNFPA to implement the recommendations of the United Nations Board of Auditors for the 2008-2009 biennium. A separate annex, available on the UNFPA Executive Board web page (http://www.unfpa.org/public/site/global/lang/en/pid/6782), provides further details of the audit recommendations and the status of their implementation. UNFPA also addressed audit issues in its report on internal audit and oversight activities in 2009 (DP/FPA/2010/20), which it submitted to the annual session 2010 of the Executive Board.

In accordance with Executive Board decision 2005/8, the present report indicates the priority accorded to each of the audit recommendations. As of 30 September 2010, UNFPA had implemented 31 recommendations of a total of 93 recommendations.

The senior management of UNFPA is committed to addressing the challenges related to national execution and compliance with procedures. UNFPA has prioritized the implementation of the recommendations of the Board of Auditors and has strengthened the follow-up process in order to ensure that appropriate and timely

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action is taken. In addition, UNFPA has established a comprehensive and systematic approach that strengthens internal controls and ensures compliance with procedures. It has assigned staff to address each of the recommendations and has set target completion dates. UNFPA has also established personal accountability mechanisms to ensure that managers are held responsible for implementing the recommendations.

I. Introduction

1. Pursuant to decision 97/2 of the Executive Board, the Executive Director is pleased to submit a progress report on the implementation by UNFPA of the recommendations of the United Nations Board of Auditors, for the biennium that ended 31 December 2009 (A/65/5/Add.7). In document A/65/498, the Advisory Committee on Administrative and Budgetary Questions reviewed the report of the United Nations Board of Auditors and the corresponding report of the Secretary-General (A/65/296/Add.1).

2. Since its establishment, UNFPA has recognized and promoted the importance of nationally owned and nationally led development. Guided by General Assembly resolution 62/208 on the triennial comprehensive policy review of operational activities for development of the United Nations system, the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action, UNFPA focuses its efforts on national ownership and uses, to the extent possible, national execution as its preferred implementation modality. Because UNFPA is a small organization that seeks to avoid creating parallel structures, it depends on national partners, especially governmental and non-governmental organizations, to implement its programmes.

3. UNFPA is aware that this approach presents challenges, especially regarding the capacity of national partners and the impact on accountability. UNFPA is committed to addressing the issues identified by the United Nations Board of Auditors and has already taken action on many of the recommendations. A comprehensive and systematic approach that strengthens controls and ensures compliance has enhanced the UNFPA response. This approach is based on the following organizational pillars:

(a) nurturing a culture of accountability and making accountability a corporate priority for UNFPA;

(b) strengthening controls, inter alia, through an enhanced internal control framework and a new enterprise risk management framework;

(c) building capacity, through the provision of support and training to UNFPA staff and implementing partners;

(d) ensuring systematic monitoring and follow-up by senior management through regular reporting to governing bodies and other decision-making bodies;

(e) strengthening the linkage between accountability and performance management, by ensuring that staff at all organizational levels are held accountable for implementing recommendations in their areas of responsibility through the UNFPA performance appraisal and development system.

4. This report updates the action undertaken by UNFPA to implement the recommendations of the United Nations Board of Auditors, as contained in document (A/65/5/Add.7). UNFPA also addressed audit issues in its report on internal audit and oversight activities in 2009 (DP/FPA/2010/20), and in the management response to that report, which UNFPA submitted to the annual session 2010 of the Executive Board.

5. The report is organized as follows:

(I) Introduction

(II) Status of implementation of the audit recommendations

(III) Collaboration with United Nations partner organizations

(IV) Conclusion

(V) Recommendation

(VI) Annex.

6. The recommendation numbers cited in this document correspond to those contained in the report of the United Nations Board of Auditors (A/65/5/Add.7).

II. Status of implementation of the audit recommendations

7. At the time of preparation of this report, UNFPA had implemented 31 of a total of 93 recommendations of the United Nations Board of Auditors for the biennium that ended 31 December 2009. As part of its efforts to improve governance, oversight and accountability, UNFPA will implement all the recommendations of the Board of Auditors in a timely manner. Furthermore, UNFPA is rigorously addressing the systemic issues related to national execution and compliance with procedures, which are the primary concerns of the Board of Auditors.

8. In line with the report of the Secretary-General to the sixty-fifth session of the General Assembly on the implementation of the recommendations of the Board of Auditors on the financial statements of United Nations funds and programmes for the financial period that ended 31 December 2009 (A/65/296/Add.1), the table below summarizes the implementation of the recommendations. In accordance with Executive Board decision 2005/8, it also indicates the priority given to each of the recommendations.

Implementation status of audit recommendations by area of responsibility

Division, country office	*Number of recommendations*	*Not implemented*	*Implemented*	*In progress*	*Priority*		
					High	*Medium*	*Low*
Division for Management Services	51	—	10	41	25	26	—
Division for Oversight Services	2	—	1	1	—	2	—
Division for Human Resources	6	—	2	4	4	2	—
Executive Coordinator, National Execution	13	—	1	12	9	4	—
Information and External Relations Division	2	—	2	—	2	—	—
Programme Division	1	—	1	—	—	1	—
Country offices	18	—	14	4	4	14	—
Total	**93**	—	**31**	**62**	**44**	**49**	—

9. UNFPA is pleased to report that it has implemented 31 of a total of 93 recommendations of the United Nations Board of Auditors. This represents 33 per cent of the recommendations. The report of the United Nations Board of Auditors

was issued on 22 July 2010. UNFPA is on track in implementing the remaining 62 recommendations and expects to implement the remaining recommendations by 31 May 2012, when it issues its financial statements. UNFPA expects to implement 44 additional recommendations by 31 December 2010. The target completion date for each recommendation is contained in the audit recommendation table available on the Executive Board web page (http://unfpa.org/public/site/global/lang/en/pid/6782).

10. To strengthen its analysis, UNFPA grouped the recommendations by the risk categories defined in the report on UNFPA internal audit and oversight activities in 2005 (DP/FPA/2006/4). The recommendations are grouped into the following categories: (a) people risk; (b) process risk; and (c) relationship risk. The paragraphs that follow summarize the action taken by UNFPA to address the recommendations in each risk category. UNFPA has sought to address the high-risk recommendations as a priority.

A. People risk

11. This group includes recommendations relating to the contractual arrangements of temporary personnel, and attendance and leave administration. There are seven recommendations in this group. UNFPA has implemented one high-priority recommendation (296) and two medium-priority recommendations (300 and 323) in this group. This represents 43 per cent of the recommendations in this group. UNFPA expects to implement the other four recommendations by 31 December 2011.

Leave monitoring (recommendations 309, 313, 314 and 318)

12. Leave accruals that accurately provide the estimated liabilities are a part of the international public sector accounting standards (IPSAS) employee benefits implementation planned for January 2011. To accurately compute the leave-pay provision in its financial statements, and to ensure that country offices maintain accurate and complete leave records, UNFPA is developing, together with its partner organizations, a technical solution through Atlas. UNDP manages this project. For international and locally recruited staff, the joint UNDP/UNFPA/UNOPS IPSAS implementation will provide an automated process that will generate monthly leave accrual reports reconciled with the leave provision in the financial statements.

13. UNDP has provided Atlas absence-processor training to all headquarters leave monitors and alternates, who began using the system in April 2010. This should improve the recording of attendance and leave.

B. Process risk

14. This group includes recommendations related to procurement activities, assets, travel and IPSAS. There are 72 recommendations in this group.

15. UNFPA has implemented 10 high-priority recommendations (27, 31, 41, 53, 68, 72, 111, 197, 215 and 270) and 16 medium-priority recommendations (50, 99, 116, 205, 209, 220, 241, 244, 246, 251, 370, 371, 379, 405, 425 and 436) in this risk group. This represents 36 per cent of the recommendations in this group. UNFPA

will have implemented the remaining 46 recommendations by 31 May 2012, when it issues the financial statements.

Strengthening controls

16. To address process risks, UNFPA has strengthened controls at headquarters, regional and country levels.

17. In 2009, UNFPA commissioned an in-depth review of the internal control framework to ensure alignment with the framework of the committee of sponsoring organizations of the Treadway Commission. The initial UNFPA internal control framework covered six business processes: procurement, information technology, resource utilization, payroll, fixed assets and travel. UNFPA is considering a similar review covering additional business processes. The implementation of the revised internal control framework, which is under way, will help to address the concerns of the Board of Auditors, as expressed in document A/65/5/Add.7.

18. UNFPA is developing an enterprise risk management framework to strengthen accountability throughout the organization. The enterprise risk management framework will provide guidance to enable UNFPA to identify areas that require stricter controls and strengthened accountability. By the end of 2010, UNFPA will have developed a global enterprise risk management strategy and policy. This will include a strategic risk assessment at the global level as well as risk assessment activities for regional and country offices. UNFPA will supplement the implementation of the enterprise risk management with a training programme. The Executive Committee of UNFPA will regularly monitor the implementation of the enterprise risk management framework. Beginning in 2011, the Committee will also serve as a risk board.

19. UNFPA is undertaking other actions to strengthen controls and ensure compliance by country offices with procedures. These include: (a) strengthening the role of regional offices in monitoring compliance; and (b) introducing an accountability assessment for UNFPA representatives and directors that will require them to formally certify that their office or division is complying with accountability requirements.

Procurement (recommendations 237, 238, 334, 335, 359, 383, 387 and 392)

20. UNFPA is addressing outstanding procurement issues by increasing the guidance it provides to country offices. It has organized monthly web conferences for all regional and country offices to ensure compliance with UNFPA policies and procedures, and has strengthened the procurement planning process. UNFPA has provided training to country office staff and developed tools to assist staff with procurement activities. Regional offices and headquarters units will provide regular follow-up and ensure compliance with policies and procedures.

21. To implement the recommendations related to third-party procurement, UNFPA revised its accounting policy for contribution revenue, effective January 2010. Revenue will include only the portion of cash received that is above the cost of the transaction.

Asset certification (recommendations 256, 267, 281 and 291)

22. To ensure that all country offices submit asset certifications in a timely manner and follow necessary procedures, UNFPA has implemented a rigorous monitoring process, whereby headquarters regularly follows up with country offices to ensure compliance with requirements. UNFPA will undertake an asset certification exercise following the headquarters relocation in October 2010.

Travel (recommendations 424 and 429)

23. UNFPA ensures that travel requests are submitted in a timely manner in order to secure the most cost-effective options for the traveller and the organization. UNFPA has achieved this through stronger oversight and guidance, training sessions, and the dissemination of statistics and graphs depicting the notice period provided by travellers from the respective divisions.

Utilization of funds and outstanding fund balances (recommendations 68, 346, 347 and 350)

24. In response to the recommendations of the Board of Auditors, UNFPA is strengthening the monitoring of fund balances on expired donor contributions. UNFPA has made improvements in the monitoring and follow-up of unspent funds, and, as a result, has reduced unspent balances over the past year. As of 2010, the list of agreements with corresponding expiry dates has been available on the donor agreement and report tracking system for immediate access by budget holders. UNFPA has also requested buyers to follow up on the liquidation of outstanding balances. In order to clear dormant balances from its records, UNFPA will bring outstanding issues to the attention of senior management for resolution and liquidation.

Accounts receivable, payable and end-of-service liabilities (recommendations 44, 58, 62, 90 and 95)

25. UNFPA has developed simpler and clearer reports and disseminated them to country offices to assist them in extracting financial information from Atlas. This will ensure that the analysis of the accounts receivable and payable balances reflects ageing.

26. UNFPA will address with UNDP, issues related to the validity, accuracy and completeness of the data used in the computation of post-retirement and end-of-service liabilities in future financial periods at the next actuarial valuation, as of 31 December 2011. This is part of the preparation for the implementation of IPSAS. UNFPA has developed a funding plan for this implementation.

C. Relationship risk

27. This group includes recommendations relating to interactions between UNFPA and its implementing partners and related processes. There are 14 recommendations in this group. UNFPA has implemented one high-priority recommendation (134) and one medium-priority recommendation (181). This represents 14 per cent of the recommendations in this group. UNFPA expects to implement the remaining 12 recommendations by 31 July 2011.

National execution (recommendations 128, 133, 142, 149, 154, 159, 160, 161, 165, 175, 188 and 192)

28. UNFPA works with governments and non-governmental organizations to implement programmes and achieve results. National execution is more complex and has risks that far exceed that of direct implementation by UNFPA. A crucial factor in the success of national execution and a priority for UNFPA is to develop sufficient capacity for national implementing partners to manage programmes. There is a need to develop long-term solutions that rely on national systems and processes and on harmonization within United Nations country teams.

29. UNFPA management is committed to and engaged in addressing the issues raised by the auditors related to national execution. Since 2008, strengthening the national implementation and execution of programmes has been a priority for UNFPA. UNFPA senior management is increasing its efforts to ensure compliance with national execution requirements and to strengthen management at the country level. The results of the efforts undertaken are expected to materialize during the 2010 national execution audit exercise, which will take place in early 2011.

30. To ensure compliance with national execution requirements, UNFPA senior management will follow up with all relevant units and will hold staff accountable for compliance with national execution audit processes. For that reason, UNFPA has included an output on national execution compliance in the performance appraisal and development system of each UNFPA Representative. Senior management will ensure the necessary follow-up and monitor staff performance.

31. UNFPA has retained a centrally recruited audit firm, with a long-term agreement, to carry out all audits at the country level. This will address the issue of the independence and affiliation of auditors, as well as that of compliance with international audit standards. The hiring of a global audit firm will ensure that audit opinions are consistent among countries, and improve the submission rates of audit reports. These improvements are expected to be reflected in the 2010 national execution audit exercise.

32. UNFPA is taking steps to address the issue of timeliness in the submission of audit reports and financial forms. In addition to the inclusion of a national execution-related output in the performance appraisal and development system, UNFPA is examining systematic approaches to ensure that all audit processes are completed in a timely manner. Among these is a process that will allow for better preparation before the audits and ensure their timely completion. UNFPA will require its country offices to undertake a pre-audit to ensure, with the implementing partners, that all documentation is in place. The audit firm will make a familiarization visit as well as hold briefing meetings prior to the start of the audits.

33. UNFPA has revised the approach to auditing national execution expenditures and the terms of reference for national execution audits. It is also taking action to ensure that projects that are to be audited, as required by the terms of reference, have been included in the audit plans. UNFPA will continue to monitor the inclusion of projects based on threshold and once-in-a-lifetime requirements.

34. To ensure the appropriateness of audit opinions for nationally executed project expenditures and the accuracy of the information in the database, UNFPA is reviewing the audit opinions in the national execution audit management system. In

addition, UNFPA is verifying the accuracy of other information in the database for the 2008 and 2009 reports, and will make the necessary amendments.

35. UNFPA has also addressed the discrepancy in the expected number of audit reports and the number of implementing partners as per the nationally executed expenditure audit database. For the 2008 reports, the number of audit reports was reconciled manually; explanations of the discrepancies are available. UNFPA is analysing the discrepancies in the 2009 reports.

36. UNFPA has created an automatic interface between the national execution audit management system and Atlas. This enables the national execution audit management system to import and display data from Atlas daily. Some discrepancies exist. For example, the national execution audit management system includes all projects that are active in Atlas, but it may also include some completed projects that no longer incur expenditure, but have not yet been closed in Atlas. UNFPA is reviewing these discrepancies.

37. To address the issue of unsupported expenditures, UNFPA is applying the harmonized approach to cash transfers and internal UNFPA risk models to identify and mitigate the risks posed by working with external partners. UNFPA is following up on the 2008 qualified reports to ensure accountability. Country offices, in conjunction with headquarters, have initiated the follow-up to the 2009 audit reports to clear any unsupported expenses.

38. UNFPA conducted regional training workshops on national execution and provided sample documents, guides and tutorials to country offices to build the capacity of country-office staff.

39. The limited capacity of implementing partners is one of the main risks in national execution. This was confirmed by a recent interdivisional exercise that UNFPA conducted to ascertain the risks associated with national execution and to agree on how to address them. The capacity of implementing partners is complex to address since national institutions are not within the control of UNFPA, United Nations country teams or other development partners.

40. Building the capacity of implementing partners is the central mandate of every country office. Country offices systematically include financial management in their capacity-building efforts. In the absence of project implementation units, some country offices have used United Nations volunteers to provide support to implementing partners. Regional offices will continue to identify needs for capacity-building at national levels and to respond with measures that are supported by headquarters. UNFPA has intensified its efforts to train implementing partners on UNFPA procedures and is investing in the long-term capacity-building of national institutions.

III. Collaboration with United Nations partner organizations

41. UNFPA is guided by the triennial comprehensive policy review of operational activities for development of the United Nations system and the UNFPA strategic plan, 2008-2013. UNFPA has long-established relationships, shared concerns and areas of engagement with partner organizations. In 2010, UNFPA worked with United Nations system partners in areas such as programming and the harmonization of business practices, through formal forums such as the High-level

Committee on Management, the High-level Committee on Programmes and the United Nations Development Group, and through systematic cooperation with partner organizations. This cooperation has been critical to achieving progress in the enterprise resource planning (Atlas) system, IPSAS, the development of a harmonized budget and enterprise risk management. UNFPA pays for services, primarily from UNDP, in areas such as human resources and finance in country offices. Some of the recommendations of the Board of Auditors require action by these partner organizations.

IV. Conclusion

42. UNFPA is committed to addressing the issues and risks raised in the report of the United Nations Board of Auditors (A/65/5/Add.7). UNFPA senior management has prioritized the implementation of the recommendations made by the Board of Auditors, specifically those related to national execution and compliance with procedures in country offices. Other recurrent issues that entail high risk include the management of vacancies for critical positions, long outstanding operating fund account balances, and issues related to procurement procedures. To ensure that results are achieved, UNFPA has strengthened its follow-up process. As indicated in this report, UNFPA has taken steps to improve and strengthen accountability and controls; to ensure that all staff members comply with operational guidelines; and to ensure that UNFPA achieves high-quality results and uses resources efficiently. UNFPA has enhanced its response through a comprehensive and systematic approach to strengthen internal controls and ensure compliance with policies and procedures.

43. As a result, UNFPA has implemented, or is in the process of implementing, all 93 recommendations made by the United Nations Board of Auditors for the biennium that ended on 31 December 2009. UNFPA has completed action on 31 recommendations. It expects to implement all the recommendations by the end of May 2012.

V. Recommendation

44. **The Executive Board may wish to take note of the present report (DP/FPA/2011/1) on the action already taken by UNFPA and the further action planned by UNFPA in implementing the recommendations of the United Nations Board of Auditors for the 2008-2009 biennium.**

VI. Annex

List of 2008-2009 audit recommendations according to priorities established by the United Nations Board of Auditors (for information)

1. There are seven recommendations in the "people" group: four recommendations are of high priority (296, 309, 313 and 314); and three recommendations are of medium priority (recommendations 300, 318 and 323).

2. There are 72 recommendations in the "process" group. Thirty recommendations are of high priority (27, 31, 41, 44, 53, 58, 62, 68, 72, 76, 87, 90, 95, 106, 107, 111, 197, 215, 237, 256, 267, 270, 281, 290, 291, 334, 335, 339, 346 and 347); and 42 recommendations are of medium priority (35, 49, 50, 65, 99, 114, 116, 198, 201, 205, 209, 220, 225, 229, 232, 238, 241, 244, 246, 251, 262, 273, 277, 350, 359, 360, 365, 370, 371, 375, 379, 383, 387, 392, 395, 401, 405, 424, 425, 429, 434 and 436).

3. There are 14 recommendations in the "relationship" group: ten recommendations are of high priority (134, 142, 149, 154, 159, 161, 165, 175, 188 and 192); and four recommendations are of medium priority (128, 133, 160 and 181).